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Wages

Wages and Working Conditions in Japan

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Foreword

The Ministry of Foreign Affairs and the Ministry of Labor of the Japanese Government co-operated late in 1962 on a new booklet entitled, "Wage Problems in Japan". Because of continuing interest in this subject on the part of Canadian businessmen, the Canada-Japan Trade Council has prepared this short summary of the contents of the booklet.

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**Wages and
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in Japan**

Labor Laws and Labor Unions

The Japanese Labor Standards Law provides standards of working conditions comparable to those in Canada, in terms of wages, hours, holidays and vacations, safety, health and the protection of women and minors. Maximum standard working hours are eight hours a day, 48 hours a week. The Minimum Wage Law passed in 1959 had by August 1962 raised the wages of 1.7 million workers. Other Japanese laws providing protection and social insurance for the workers include workmen's accident compensation insurance, unemployment insurance, health insurance, welfare and pension insurance, national employment agencies and public vocational training centers.

Union membership in Japan reached 8,360,000 in 1961 (Canada—1,447,000). This amounts to 35% of all workers, and is a rate of union organization approximately equal to that in Canada. About 80% of all union members work under collective bargaining agreements freely negotiated with employers. Former union members account for about 12% of the membership of the lower house of the Diet and 20% of the upper house. Many union members are elected to local public bodies, and are active in various advisory organs of the government.

Wages and Living Conditions

Since 1952 the earnings of manufacturing workers have increased at a yearly rate of approximately 5%, with an aggregate rate of increase in the ten-year period from 1952 to 1962 of approximately 45%. This rate far exceeds the yearly rate of wage increases in the U.S. and Canada, the U.K., and most Western European countries during the same period.

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The improvement in living conditions in Japan over the past ten years is demonstrated by the current widespread ownership of consumers' durable goods. In 1962, 83% of all workers' households had radio sets (96% Canada), 79% had television sets (84% Canada), and 58% had electric washing machines (86% Canada)*. These figures are also almost equivalent to the comparable figures in the U.K., France and West Germany.

International Wage Comparisons

It is extremely difficult to compare wage levels in different countries with wide disparities in living and consumption patterns and price structures. The most commonly used method is a simple comparison of direct wages paid. Direct hourly wages paid in 1960 to manufacturing workers averaged \$2.29 in the U.S., \$1.78 in Canada†, 75¢ in the U.K., 62¢ in West Germany and 30¢ in Japan. By this method of comparison, Japan's wage rate in 1960 was only 17% of Canada's and 13% of the United States.

However, this is obviously an inadequate oversimplification. Among additional factors which must be taken into consideration in such a comparison are labor productivity, levels of national income, price structures, purchasing power and traditional wage practices.

Research by the International Labor Organization indicates that when wages of different countries at different stages of economic development are compared by the simple method of official exchange rate conversions, the wage levels of the less developed countries tend to be undervalued in comparison to those of the more advanced countries.

*Source: DBS statistics

†Source: DBS 1960 hourly earnings

Professor John Hicks of Oxford, in a public lecture delivered in Japan in 1960, said:

While the official exchange rate comparison would show that the British income level is only one-third of that of the United States, this does not conform with the reality. If differences in the pattern of living and the price levels of the consumer goods are taken into account, the United Kingdom would come to somewhere around 50 to 60 per cent of the United States. The same applies to Japan. Since price levels in Japan are much lower, her real income level would come to about a quarter of that of the United States.

It follows, therefore, that the purchasing power in real terms of Japanese wages is considerably higher than their nominal value in U.S. dollars.

Another factor which must be considered is the extremely generous fringe benefits paid to Japanese employees. It is a traditional practice for Japanese employers to pay their workers summer and year-end bonuses which amount to the equivalent of three months wages. Aside from these cash extras, employers usually provide such non-cash benefits as meals, commutation tickets, workers' dormitories, company-built houses, recreational facilities, hospital and welfare services and generous retirement allowances.

Productivity

The average level of productivity of a national economy is usually indicated by the size of its per capita national income. For the year 1960 per capita income in the U.S. was approximately \$2,300; in Japan it was \$340. The difference between the

two figures is roughly equivalent to the difference in the wage level of the two countries.

In the past, Japan's productivity has been considerably lower than that of the industrial countries of the West, chiefly because Japan lacked capital while possessing an abundance of labor. Recently, as a result of a vast increase in plant and equipment investment, labor productivity has risen sharply in key Japanese industries. Output per worker in the steel, cotton spinning, cement and electric power industries is now approaching the Western European level.

However, low productivity still prevails in many sectors of the Japanese economy, especially in industries dominated by small and medium-sized enterprises. In Japan 50% of those employed in manufacturing industries work in establishments employing less than 50 persons; 10% in establishments employing between 50-100; 19% in establishments employing 100-500 and 21% in establishments with more than 500 employees. The comparable figures in Canada* are 22% in establishments with less than 50; 12% between 50-100; 32% between 100-500 and 34% above 500.

Wages and the Japanese Industrial Structure

The existing pattern of Japanese wages is partially determined by the "dual structure" of industry. Because the Japanese economy grew rapidly in a relatively short period of time under conditions of capital shortage and a chronic surplus of labor, there developed a split between large scale modern enterprises with advanced technology and high productivity and labor-

*Source: DBS statistics

intensive medium and small scale enterprises with low productivity. Workers who enter one of the modern large-scale enterprises look upon their jobs as life-long employment, whereas labor mobility among small enterprises is considerably greater, owing to frequent business failures in this category.

There is a wide spread between wages paid in Japan to employees of large and small enterprises. The following table based on data for the year 1958 indicates the spread in wages and productivity between workers employed in various sized establishments:

Size of Establishment (No. of employees)	Wages	Value added per worker
4— 9	37.9	27.0
10— 49	43.9	36.4
50— 99	50.4	47.3
100—499	61.2	64.6
500—999	75.2	76.8
1000 or more	100.0	100.0

Several additional points should be borne in mind in considering Japanese wage costs.

Young workers are paid considerably less than older workers, as the following table indicates:

Wage Differential by Age Groups
(Male Wage Earners in Manufacturing Industries, 1961)

Age Group	Wage Differential (20-24=100)
17 or younger	54.7
18-19	76.9
20-24	100.0
25-29	130.0
30-34	160.5
35-39	181.7
40-49	198.3
50 or older	163.9
Total average	132.5

The industrial labor force in Japan shows a considerably higher percentage of relatively young workers than in other advanced countries. The following table provides a comparison between the U.K. and Japan:

Age Composition of Workers in Manufacturing Industries (1961)

Age Group	United Kingdom	Japan
Total	100.0%	100.0%
24 or younger	22.9	45.7
25-34	19.7	25.8
35-49	31.7	21.4
50 or older	25.7	7.1

This situation will change radically in the near future when the extremely low Japanese birth rate of the post-war years begins to make itself felt in the labor market. As the supply of young workers dwindles, the average age of the working population will begin to rise, leading in turn, to a steadily rising wage level.

Wage in Export Industries

Wages in Japan's chief export industries vary considerably. The wage level is relatively high in the ship building and steel industries, where modern plant and equipment make high productivity possible. The wage level in these industries is approximately the same as in Italy or France.

In the textile industry, the average wage is considerably lower. Here the overwhelming majority of the workers are young women with short years of service. The average proportion of female workers for all manufacturing is 34%, while in the cotton textile industry it is almost 80%. As the vast majority of workers resign in order to get married, and are replaced by younger unmarried girls, the average age composition and consequently average wage level remains unchanged.

Other leading export industries, such as porcelain, toys, clothing and footwear are composed of many small enterprises with considerably lower productivity and consequently considerably lower wages than large-scale enterprises.

Future Prospects

The rapid economic expansion during the past several years has vastly increased opportunities for employment and drastically

altered the demand-supply relationships in the labor market. The labor shortage in Japan is most acute in the younger age brackets, due chiefly to the low post-war birth rate. The starting wages of high school graduates have been substantially increased during the past few years, with a consequent increase all along the line.

With the rapid technology advance, skills hitherto acquired by long service are losing importance, and a new kind of labor force is in demand. This trend, coupled with the change in the labor market situation and the rise in starting wages, is beginning to make obsolete the traditional method of wage determination by age and length of service. Many enterprises are considering the adoption of the wage system practiced in the advanced industrial countries of the West.

In 1960 the Japanese government adopted a National Income Doubling Plan, which has as its goal an average rate of economic growth of more than 7% a year until 1970. Thus far the goals of the plan have been exceeded. Ultimate success of the plan will require sharp increases in the wage level, and expansion of both the domestic market and foreign trade.

Because of its small land area and lack of natural resources, Japan must depend heavily on imports for virtually all its industrial raw materials. Importation of these raw materials is indispensable to the achievement of Japan's economic development plan. In order to pay for them, Japan must continually expand her exports.

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